Title of Report	Quarterly Update Report
For Consideration By	Pensions Committee
Meeting Date	19 January 2023
Classification	Open
Ward(s) Affected	All
Group Director	Ian Willams, Finance & Corporate Services

1. Introduction

1.1. This report is an update on key quarterly performance measures, including an update on the funding position, investment performance, responsible investment, administration performance and reporting of breaches. It provides the Committee with information on the position of the Fund between July and September 2022.

2. Recommendations

2.1. The Pensions Committee is recommended to:

- Note the report

3. Related Decisions

3.1. Pensions Committee (Urgency Delegation March 2020) – 2019 Final Valuation Report and Funding Strategy Statement
3.2. Pensions Committee 23rd November 2021 –Investment Strategy Statement
3.3. Pensions Committee January 2022 – Pension Administration Strategy (PAS)

4. Comments of the Group Director of Finance and Corporate Resources

4.1. The Pensions Committee has delegated responsibility for management of the Pension Fund. Quarterly monitoring of key aspects of the management of the Pension Fund is good practice and assists the Committee in making informed decisions.

4.2. Monitoring the performance of the Fund's investment managers is essential to ensure that managers are achieving performance against set benchmarks and targets. Performance of the Fund's assets will continue to have a significant influence on the valuation of the scheme's assets going forward. The investment performance of the Fund is a key factor in the actuarial valuation process and therefore directly impacts on the contributions that the Council is required to make into the Pension Scheme.

4.3. Reporting on administration is included within the quarterly update for the Committee as best practice. Monitoring of key administration targets and ensuring that the administration functions are carried out effectively will help to minimise costs and ensure that the Fund is achieving value for money.

4.4. Whilst there are no direct impacts from the information contained in this report, quarterly monitoring of key aspects of the Pension Fund helps to provide assurance to the Committee of the overall financial performance of the Fund and enables the Committee to make informed decisions about the management of the Fund.

5. <u>Comments of the Director of Legal, Democratic and Electoral Services</u>

5.1. The Pensions Committee's Terms of References sets out its responsibility for management of the Pension Fund. The Committee has delegated responsibility:

- To make arrangements for the triennial actuarial valuation, monitor liabilities and to undertake any asset/liability and other relevant studies as required.
- To monitor the performance and effectiveness of the investment managers and their compliance with the Statement of Investment Principles (Investment Strategy Statement).
- To set an annual budget for the operation of the Pension Fund and to monitor income and expenditure against budget.
- To act as Scheme Manager for the Pension Fund

5.2. Given these responsibilities, it is appropriate for the Committee to consider a regular quarterly update covering funding and investment matters, budget monitoring and scheme administration and governance.

6. <u>Funding Update</u>

6.1. In the last quarterly update report it was stated that the provision of the quarterly funding update will resume at the January Committee, when an estimated updated funding position based on the 2022 valuation assumptions will be provided. At the time of writing this report, the updated valuation is still awaited. A verbal update will be provided to Committee at the meeting.

7. Investment Update

7.1. Appendix 1 to this report provides a manager performance update from the Fund's former investment consultants, Hymans Robertson. The report includes an analysis of the last quarter, 1 year and 3 year performance against benchmark and target, as well as Hymans Robertson's current ratings for each manager. The report shows that the Fund produced negative absolute returns over the quarter of 0.6%, 0.2% above the benchmark return %. Over the last 12 months, the Fund has underperformed the benchmark by 3.2%, producing overall returns of -6.9%. Over the last 3 years, returns of 3.5% have been achieved, out-performimg the benchmark by 0.5%.

7.2. The Growth allocation performed negatively over the quarter as equity markets continued to fall due to concerns around central bank policy tightening, slowing earnings momentum, and geopolitical uncertainty. In bond markets, Government bond yields rose as markets moved to price in significant further increases in interest rates. Credit spreads have risen considerably since the start of the year and are well above long-term median levels. Property was a relative bright spot.

7.3. The Fund will continue to closely monitor the performance of its equity portfolio and will consider the potential future impacts of style bias as part of the upcoming investment strategy review.

7.4. Committee should note that the performance of the LCIV Diversified Growth Fund managed by Baillie Guifford, in which the Hackney Fund is invested (£124m as at 30/09/2022), is also being closely monitored by the LCIV, following a deep dive review of the Fund's performance. This review has concluded that the fund's performance to date has not aligned with expectations and that there are concerns about the manager's ability to deliver the long-term absolute and relative performance targets. As a result of this, the fund's monitoring status has been downgraded from normal to enhanced. This status will be reviewed in 6 months time following engagement with Baillie Gifford and further review of the performance of the fund. Officers will update the Committee on the performance of this following LCIV further review and will discuss any further required action with our investment consultants at the end of this period.

8. Investment Strategy Implementation Update

8.1. Following the Committee's approval of its refreshed investment strategy, Officers agreed to provide a quarterly update on its implementation.

8.2. It has been a relatively quiet quarter in terms of any further changes to the investments of the fund, particularly given that the majority of actions required to implement the current approved strategy have already been completed.

8.3. Further drawdowns have been financed on the LCIV infrastructure and private debt mandates in line with the agreed strategy and fund manager requests for financing. The current position with regards to undrawn capital commitments is set out in the table below:

	Capital Commitment	Funds drawn as at September 2022	Undrawn commitment
Permira	£95m	£74m	£21m
Churchill	£71m	£66m	£5m
LCIV Private Debt	£180m	£100m	£80m
LCIV Renewable Infrastructure	£90m	£30m	£60m
Total			£166m

9. Responsible Investment Update

9.1. The Pensions Committee has looked to increase the level of engagement with the underlying companies in which it invests. This includes taking a more proactive role in encouraging managers to take into consideration the voting recommendations of the Local Authority Pension Fund Forum (LAPFF). This section of the quarterly report therefore provides the Committee with an update on the work of the LAPFF.

9.2. The LAPFF Quarterly Engagement report is attached at Appendix 2 to this report, setting out LAPFF's engagement activity over the Quarter in relation to environmental, social and governance issues. As the Committee will recognise, the Fund no longer retains any segregated mandates and therefore has no direct holdings in the companies referenced. It does, however, retain exposure via its pooled passive funds to a large number of the companies LAPFF engages with.

9.3. As can be seen from the LAPFF Quarterly Update Report, much of the engagement with companies has continued to focus on human rights, social and climate change issues. LAPFF continue to issue voting alerts in respect of both climate change issues and wider social/human rights issues.

9.4. The Committee has previously requested that the Fund be in a position to set a new climate change target by January 2023. This is likely to become mandatory for the LGPS by 2023/24 as part of the introduction of mandatory TCFD reporting as outlined in previous reports. Following discussions with the Fund's investment advisers, Reddington, there is a paper elsewhere on this agenda considering options for setting relevant climate change targets with a view to completing the exercise by end March 2023.

10. Pension Administration

10.1 Pension Administration Management Performance

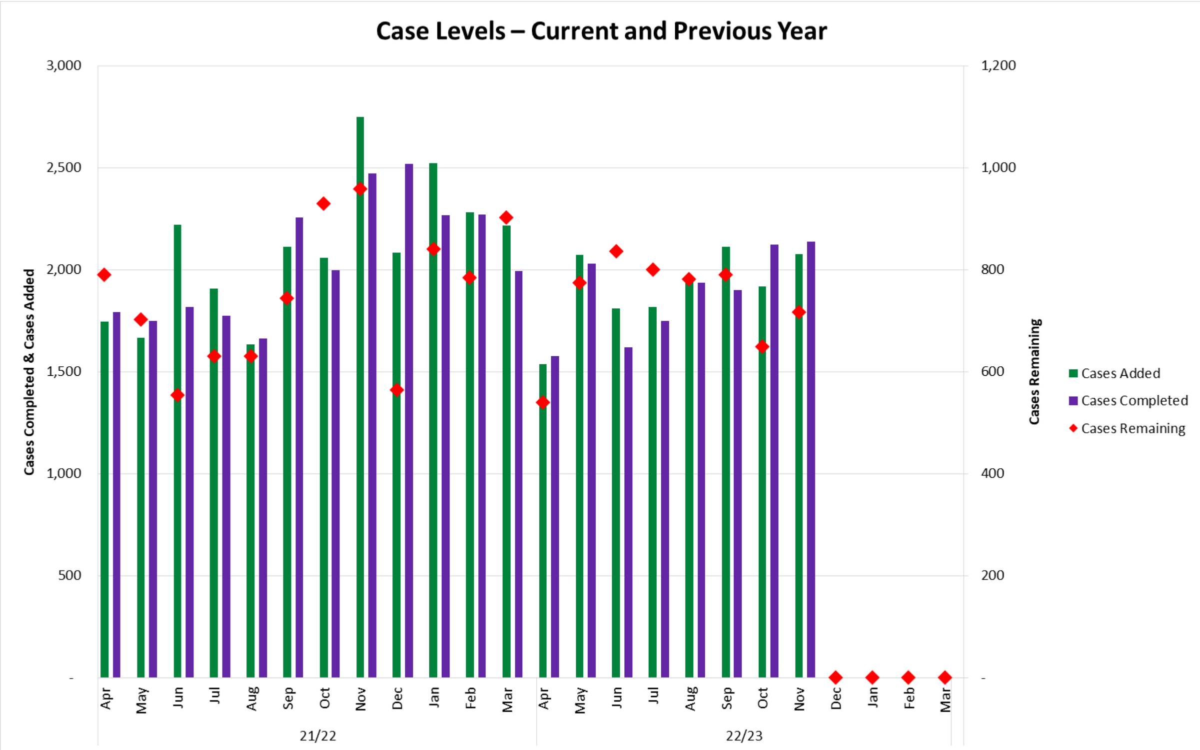
The following sections provide information on the numbers of cases being received and processed by Equiniti, as well as their performance against the Fund’s service level agreement standards (SLAs).

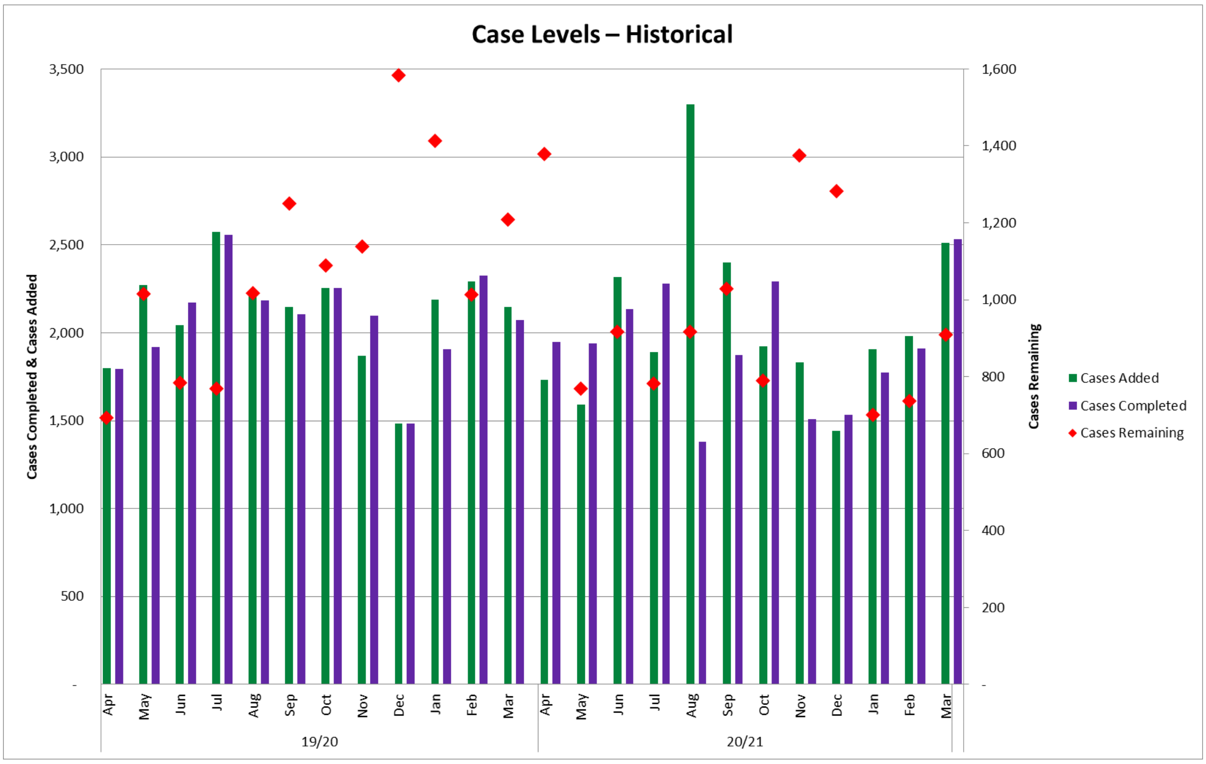
Case Levels

The graphs below show historical cases levels received and processed by Equiniti dating back to April 2019. For each month, the graph shows:

- "cases added" - the number cases received by Equiniti during the month ("cases added") and
- "cases completed" - the number of cases completed by Equiniti during the month ("cases completed")
- "cases remaining" - the numbers of cases that are outstanding and therefore waiting to be processed by Equiniti at the end of each month ("cases remaining")

For the period August 2022 to November 2022, the number of cases received has had a slight increase from the previous period with the largest number of cases received in September. The number of cases completed by Equiniti has also increased since the last period reported and is also nearer to those completed on average in the 2021/22 year. This could be due to receiving more cases than the previous period reported.





SLA and KPI monitoring

The contract with Equiniti includes a large number of service level agreement standards (SLAs). The most significant of these for the Fund, are categorised as being key performance indicators (KPIs) and these are monitored closely. The KPIs include target timescales for processes such as:

- providing new members with information about the scheme
- notifying retiring members of the amount of retirement benefits and paying them their tax-free cash lump sum
- informing members who leave the scheme before retirement of their deferred benefit entitlement.

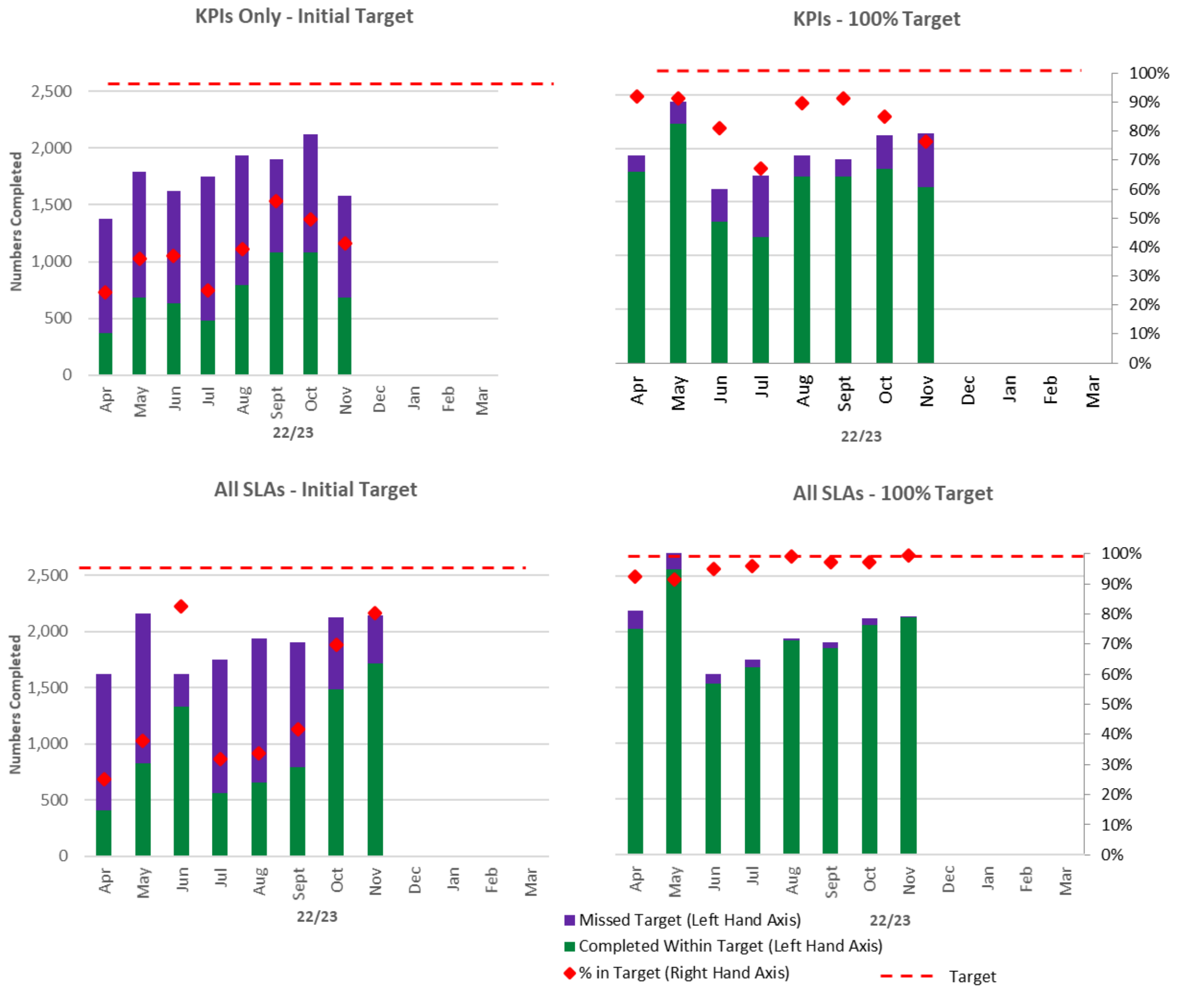
For most SLAs there are two targets:

- an initial target – this is the initial timescale within which the majority of cases must be processed (typically 95% is the target to be processed by the initial target period)
- the 100% target – this is a later timescale by which it is expected that 100% of cases will be processed by.

The following graphs show Equiniti's performance against the various targets since April 2022. Each graph illustrates the numbers of cases completed within the target (green) and the number outstanding (purple), as well as the percentage of cases completed within the target (red diamond which relates to the right-hand axis). The four graphs are as follows:

- KPIs Only – Initial Target: this shows the performance against **only** the key performance indicators based on the initial target where it is expected that (in the main) 95% of cases will be processed.
- KPIs Only – 100% Target: this shows the performance against **only** the key performance indicators based on the 100% target where it is expected that all cases will be processed.
- All SLAs – Initial Target: this shows the performance against **all** service level agreement standards based on the initial target where it is expected that (in the main) 95% of cases will be processed.
- All SLAs – 100% Target: this shows the performance against **all** service level agreement standards based on the 100% target where it is expected that all cases will be processed.

For the period August 2022 to November 2022, Equiniti have continued to perform close to the 100% target in all measures with a slight decrease in the KPI 100% target measure in November. The initial measure for both the SLAs and the KPIs on average have increased from the previous period with the highest performance for both the initial SLA and 100% target SLA measures being in November. This increase in performance across both measures along with the increase in number of cases completed suggests that Equiniti are coping well with the workloads.



10.2 Ill Health Pension Benefits

The release of ill health benefits fall into two main categories, being those for deferred and active members. The administering authority team at Hackney process all requests for the release of deferred members' benefits. Deferred members' ill health benefits are released for life, are based on the benefits accrued to the date of leaving employment, (with the addition of pension increases whilst deferred), but they are not enhanced by the previous employer.

The team also assist the Council's HR team with the process for requests to release an active members' benefits on the grounds of ill health retirement.

Active members' ill health pensions are released on one of three tiers:

- Tier 1 - the pension benefits are fully enhanced to the member's normal retirement date – paid for life, no review

- Tier 2 – the pension benefits are enhanced by 25% - paid for life, no review
- Tier 3 - the pension benefits accrued to date of leaving employment - paid for a maximum of 3 years and a review undertaken when pension has been in payment for 18 months.

The applications received overall have been similar in volume compared to the same period in the previous year:

DEFERRED MEMBER'S ILL HEALTH RETIREMENT					
	CASES RECEIVED	SUCCESSFUL	UNSUCCESSFUL	ONGOING	WITHDRAWN
Q2 2022/23	2	0	0	2	0
Q2 2021/22	3	1	2	0	0
ACTIVE MEMBER'S ILL HEALTH RETIREMENT CASES					
	CASES RECEIVED	BENEFITS RELEASED ON TIER 1	BENEFITS RELEASED ON TIER 2	BENEFITS RELEASED ON TIER 3	UNSUCCESSFUL
Q2 2022/23	4	3	0	1	0
Q2 2021/22	3	3	0	0	0

10.3 **Internal Disputes Resolution Procedure (IDRP)**

This is the procedure used by the Fund for dealing with appeals from members both active and deferred. The majority of the appeals are in regard to either disputes around scheme membership or the non-release of ill health benefits. The process is in two stages:-

- Stage 1 IDRP's are reviewed and determinations made either by the Pensions Manager or by a senior technical specialist at the Fund's pension administrators, Equiniti.
- Stage 2 IDRP's are determined by the Group Director, Finance & Corporate Resources taking external specialist technical advice from the Fund's benefits consultants.

Stage 1 – None were received in this reporting period

Stage 2 – One application was received in this quarter against the administering authority in relation to an historic orphaned AVC which was upheld

10.4 **Other work undertaken**

Third Party Administration Contract

At the September 2022 Committee meeting, it was agreed to proceed with Equiniti's proposal for renewal of the Fund's third party administration services contract for 3 years from 1st January 2023. A Heads of Terms agreement has been entered into, which commits both parties to the contract extension. At the time of writing this report the final contract clauses and specifications are still being agreed upon. A verbal update will be given at the committee meeting.

Pension Saving Statements

The Finance Act 2006 sets out that individuals can only save up to £40,000 each year in their pension funds (a lower amount applies for some of the very highest earners). For a defined benefit scheme such as the LGPS, this is calculated as the overall growth in their benefits over the year. The Pension Fund is required to send a Pensions Savings Statement (PSS) to notify any member whose benefits within the Hackney Pension Fund have exceeded £40,000. These statements must be issued by 6th October in respect of the previous financial year.

There were 61 statements originally issued for the 2021-22 tax year, in time for the 6 October deadline. There was unfortunately a problem with the data which came across from the council's payroll system, the biggest employer in the Fund. This is because of the monthly electronic reporting which has been implemented between EQ and the council, and was used for the first time for PSS purposes. Due to the complex nature of some of the pay calculations needed for final salary pension benefits (benefits built up in the scheme prior to 2014) the new monthly reporting meant that errors occurred in some employee records, and it was found that historically payroll had not been reporting final pay information correctly for some of the active members.

Due to data uncertainty all salaries for the 61 records were manually reviewed by the internal LBH pensions team and the following is the final position:

- 17 revised statements were issued for members who had previously received a PSS in 2021
- 24 statements were reissued for members who did not receive one previously in 2021
- On recalculation using the corrected salaries 14 of the original 61 no longer required a PSS as they had not breached

- 6 statements did not require reissuing as the original 2022 statements were correct- so no further action was needed

In addition to the above 3 more PSS's were issued at the end of October for 3 members- these were records that were still being reviewed due to historical data/salary issues so had missed the original 6 October deadline.

Planning is already being put in place for next year's Pension Saving Statements to ensure that the information is captured correctly, and internal checks and controls will be implemented for the pensions team to check the salary data supplied by payroll against the live payroll system for the members that are flagged as needing a pension saving statement in October 2023.

McCloud Programme Update

The Public Service Pension and Judicial Offices Act 2022 enables the Department of Levelling up, Housing and Communities (DLUHC) to make the regulations needed to implement the McCloud remedy within the LGPS.

Draft LGPS "McCloud" regulations and DLUHC's response to its 2020 consultation were initially expected before the 2022 Summer Recess. This timetable has now been pushed out to early 2023 for both DLUHC's consultation response and draft regulations. It is expected that the draft regulations will consist of two parts:

- The technical consultation on the remedy regulations
- Seeking views on issues not covered by the 2020 consultation, including interest, compensation on Teacher's excess pension

Furthermore, on 15 December 2022 HM Treasury issued Directions in relation to the Public Services Pensions and Judicial Offices Act 2022 (PSPJOA), setting out how certain powers in the PSPJOA must be exercised. Part 4 of the Treasury directions cover the LGPS, and the directions include powers to pay compensation, compensatable losses, interest payments and compensation applications

Following the consultation on the draft regulations it is expected that the regulations will now be made before the summer recess in 2023. The coming in to force date of the regulations remains as 1 October 2023

Workstreams

Most workstreams are progressing well with regular meetings being attended by key Hackney pensions officers and representatives from Equiniti and Aon.

Good progress continues to be made in relation to the Data, Communications, Finance, Governance and Benefit Rectification

Workstreams although some actions continue to be paused due to the delay in the regulatory timetable. The Ongoing Administration and Systems workstream is still behind where we would want it to be at this stage of the project and is unlikely to be resolved until the new contract with the Fund's third-party administration and software provider, Equiniti, is implemented. As part of that contract, Hackney Pension Fund is expected to migrate to the updated version of their software in order for the new McCloud underpin calculations to be automated. If the Fund did remain on the current system those calculations would need to be carried out "off system".

The Compendia software is key to delivering the McCloud programme going forward, particularly in relation to the Data, Communications and Ongoing Administration workstreams. The Benefit Rectification workstream is currently being delivered off system, but the outputs will need to meet the requirements of the administration software and so this workstream is also impacted by any potential migration.

Risks for all workstreams continue to be actively managed within the programme and these are reviewed regularly by the Programme Management Group (PMG).

Whilst the overall project is running slightly behind the original schedule, principally due to the slower than expected progress with the Ongoing Administration workstream, this needs to be considered in the context of the regulatory timetable, which has continued to change. The biggest risk for the programme at the present time remains the Equiniti contract and software situation in terms of getting the contract finalised and ensuring that Equiniti have in place an overall software migration plan. Therefore, until this has progressed the scale of any impact to each individual workstream is unknown. The Programme Management Group's next meeting will take place on 28 February 2023. By this time it is expected that the new Equiniti contract will be in place, the software migration will be discussed further, and key risks updated as appropriate. A further update will be provided at the next Committee meeting.

Guaranteed Minimum Pension (GMP) Reconciliation

As previously reported to the committee a number members were "descoped" from the main GMP reconciliation process (members who became entitled to their GMP before reaching their SPA, some post 2016 SPA cases and certain survivor pensioners). Several discussions have taken place between the Fund and Equiniti on this and Equiniti has provided some more details on these groups. Due to the additional work needed around the PSS programme work has not been started on this. The Fund will be progressing this with EQ during Q4. An update will be provided at subsequent committee's.

11. Reporting Breaches

11.1 There have been no reportable breaches in the last quarter.

Appendices:
Appendix 1 – Investment Performance Report (Hymans Robertson – Investment Consultant)
Appendix 2 - LAPFF Quarterly Engagement Report

Background documents
None

Report Author	Name Michael Honeysett Title Hackney Pensions Team Email michael.honeysett@hackney.gov.uk Tel 020 8356 3332
Comments for the Group Director of Finance and Corporate Resources prepared by	Name Jackie Moylan Title Director, Financial Management Email jackie.moylan@hackney.gov.uk Tel 020 8356 3032
Comments for the Director of Legal, Democratic and Electoral Services prepared by	Name Angelie Walker Title Senior Solicitor Email angelie.walker@hackney.gov.uk Tel 020 8356 6012